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Director – Regulatory Affairs



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June 12, 2002

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements, CC Docket No. 98-171; Telecommunications Services for Individuals with Hearing and Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-571; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Numbering Resource Optimization, CC Docket No. 99-200; and Telephone Number Portability, CC Docket No. 95-116

Dear Ms. Dortch:

On June 12, 2002, Ann Rakestraw, Neal Bellamy and the undersigned met with Paul Gallant, Diane Law Hsu, Vickie Byrd and Jon Secrest of the Wireline Competition Bureau. The purpose of the meeting was to discuss Verizon's "collect and remit" proposal for contributing to the universal service funds and why the Commission should not adopt the per-connection approach suggested in the Notice. The attached material was used in the meeting.

We also discussed why AT&T's request for a waiver to base its contributions on projected revenues should be rejected. First, we explained how AT&T has not shown that it faces unique circumstances that warrant special treatment. Verizon's local and long distance business revenues are equally threatened by the same service alternatives cited by AT&T in its May 15, 2002 *ex parte*, i.e., "all distance" wireless services, e-mail and instant messaging, in addition to the growing use of cable telephony. See UNE Fact Report 2002, pp. I-15-17 & II-26-37, submitted with Verizon's comments in CC Dockets 01-338, 96-98, and 98-147 on April 5, 2002.

Second, a grant of AT&T's waiver would not serve the public interest. While AT&T claims that it would be able to assess residential customers less than it would absent the waiver, its projected end user recovery factor would still be substantially higher than the 3rd quarter 2002 contribution factor that USAC would assess all carriers. In addition, granting AT&T's request would unfairly increase the assessment to all other contributors. While AT&T claims that this increase will be offset by the reduction it provides to its own customers, it is likely that the other major IXCs

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would request similar treatment, resulting in even greater increases in both wireline and wireless consumer's bills.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Scott Randolph", written in a cursive style.

W. Scott Randolph
Director - Regulatory Matters

Attachment

cc: Paul Gallant
Diane Law Hsu
Vickie Byrd
Jon Secrest

Universal Service Contribution Mechanism

June 2002



A Revenue-Based System Is The Best Method Of Collecting Funds For Universal Service

- Self-weighting approach
 - Contributions are proportional to interstate usage
- Competitively neutral
 - Allows market forces, rather than regulators, to set prices for services, and thus assessment levels
- Consistent with the Act
 - Allows “every telecommunications provider” providing interstate telecommunications service to contribute on an “equitable” and “nondiscriminatory” basis. *See* 47 U.S.C. § 254(d).

Concerns With The Current System Are Best Addressed Through Adjustments To The Revenue-Based Approach

- A collect and remit system eliminates the need to adjust charges to account for uncollectibles
 - Quarterly contribution factor would reflect projected fund needs and projections of collected revenues
 - Carriers would remit payments based on percentage of total interstate revenues actually collected
- Assessment based on current revenues eliminates problems with carriers with declining revenues
 - Erases historical lag time between assessment and payment, so there is no need to increase percentage to recover assessment from shrinking customer base

Concerns With The Current System Are Best Addressed Through Adjustments To The Revenue-Based Approach (con't)

- Consider imposing a flexibly defined safe harbor cap on universal service line item charges
 - Cap must allow carriers to recover administrative costs
 - Cap should be flexibly defined (average, rather than per individual customer) to allow for flat fee charges
- Expand contributor base
 - All broadband providers should contribute to the schools and libraries program
 - Conduct further proceedings to determine whether safe harbors should be revisited

The Commission Should Not Move To A Per-Connection System

- A per-connection approach does not address concerns over “leakage” from interstate revenues
 - Per-connection approach merely shifts large portion of burden from long distance carriers to local, wireless, and paging providers
 - Pure per-connection approach reduces contributor base by eliminating contributions from carriers and services that do not have “connections”
- The COSUS proposal would violate the Act. *See* 47 U.S.C. § 254(d).

The Commission Should Not Move To A Per-Connection System (con't)

- A per-connection approach would create significant new administrative difficulties
 - A “connection” is difficult to define, especially for multi-line businesses
 - Carriers track revenues in the normal course of business; they do not track “connections”
 - The number of “connections” vary widely day to day
 - Because carriers will still need to count and report revenues for other purposes, the new administrative burdens would be in addition to current costs
- Unknown impact on multi-line business customers

The Commission Should Not Move To A Per-Connection System (con't)

- A per-connection approach is not competitively neutral
 - The Commission lacks an adequate record here to set the equivalency ratios required under a per-connection approach
 - Setting tiers of bandwidth, while better than alternative per-connection methods, would likely lead to skewed market results

The Commission Should Not Move To A Per-Connection System (c

- Connection-based approach gives Commission less flexibility to recover future increases in universal service fund from different sources
- There is no need for a per-connection system
 - There is no proof of a significant, systematic decline in interstate revenues
 - Uncollectibles, time lag concerns, and any other issues with interstate revenues can be addressed through a revenue-based system
 - Bundled offerings can be addressed by examining individual components of the offering or using safe harbor

The Commission Should Not Move To A Per-Connection System (con't)

- The Commission should not adopt a mechanism that would result in dramatic shifts in contribution obligations among different industry segments
- If the Commission believes that there should be adjustments to safe harbors, it should institute a separate proceeding to determine what adjustments are appropriate; it should not accept allocation changes merely as a byproduct of changing the mechanism of assessment